

Dr. Alexander Schaub  
Director General  
European Commission  
Directorate General for the Internal Market

1049 Brussels

25 July 2003

Dear Dr. Schaub

**Re: Adoption of IFRS 1 *First-time Adoption of International Financial Reporting Standards***

We are pleased to respond to your letter of 30 June 2003 requesting our opinion on the adoption of IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1").

We have evaluated ED 1 *First-time Application of IFRSs* (see our comment letter to IASB dated 31 October 2002) as well as the final standard IFRS 1 *First-time Adoption of IFRSs* (issued 19 June 2003), the Basis for Conclusions on IFRS 1 and the Guidance on Implementing IFRS 1.

IFRS 1, which replaces SIC-8 *First-time Application of IASs as the Primary Basis of Accounting*, applies to entities that present IFRS financial statements for the first time. The main principle underlying SIC-8 was the need for comparability between first-time adopters and entities that already applied IASs. To achieve that, SIC-8 required - if it was not impractical to do so - full retrospective application of the standards as if the entity had always applied IASs/IFRSs. It therefore required application of superseded versions of standards, even when new versions had been introduced prohibiting retrospective application. Because of the requirement for full retrospective application, SIC-8 was considered to be cumbersome and to result in costs exceeding the benefits for users of financial statements.

In contrast, the first priority of IFRS 1 is to achieve comparability within one entity over time and between different first-time adopters and secondly to achieve comparability between first-time adopters and entities that already apply IFRSs. It should be stressed that this will be achieved by applying the main principle (IFRS 1 paragraphs 7 and 8) to use only IFRSs effective at the reporting date in combination with an option to use a limited number of specified exemptions (e.g. Business Combinations). We believe that the application of IFRS 1 provides a practical approach for those implementing IFRSs for the first time.

The standard therefore accommodates the needs of listed EU companies, which will be applying international accounting standards for the first time for financial years beginning on or after 1 January 2005. We believe this will also be in the interest of users of financial statements.

We have concluded that IFRS 1 meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

- i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt IFRS 1. Accordingly, we recommend adoption of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

We should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

Johan van Helleman  
EFRAG, Chairman